

BEFORE THE MINNESOTA PUBLIC UTILITIES COMMISSION

Barbara Beerhalter	Chair
Cynthia A. Kitlinski	Commissioner
Norma McKanna	Commissioner
Robert J. O'Keefe	Commissioner
Darrel L. Peterson	Commissioner

In the Matter of the Implementation of an
Energy Conservation Program for Northern
States Power Company (Gas Utility)

ISSUE DATE: June 28, 1988

DOCKET NO. G-002/M-87-233

ORDER APPROVING AND REVISING CIP
PROJECT

PROCEDURAL HISTORY

On January 5, 1988 the Commission issued its ORDER APPROVING NORTHERN STATES POWER COMPANY'S (GAS UTILITY) CONSERVATION IMPROVEMENT PROGRAM AND REQUIRING NEW PROJECTS AND INFORMATIONAL FILINGS. In that Order, the Commission approved the Company's proposal to include a "House Doctor" project in its 1987-88 Conservation Improvement Program (CIP), subject to Commission approval of program specifics to be provided later. On

April 19, 1988 the Company filed detailed information about the proposed form of the project.

The Department of Public Service (the Department) filed comments on May 4, 1988, suggesting a technical correction in the language of a proposed contract and the deletion of a minor component of the heating system services specifications.

The matter came before the Commission on June 16, 1988.

FINDINGS AND CONCLUSIONS

Project Summary

The House Doctor project is intended to provide a free package of comprehensive weatherization services and basic furnace tune-up and safety services to low income households. The Company has contracted with two vendors, Ramsey Action Programs and Neighborhood Energy Consortium-Energy Resource Center, to provide the services. The proposed fee to the Company is \$520.00 per

household, with \$410 attributed to weatherization and \$110 to furnace safety and tune-up. Given the total House Doctor appropriation of \$200,000, the project would serve approximately 384 households,

Commission Concerns

The Commission has grave concerns about the cost of this project. As originally approved, the project was to serve 470 households at a cost of \$425 each. This was slightly higher than the \$407 per household for Minnegasco's House Doctor project. The Commission considered the cost differential reasonable, however, since NSP's project included furnace services and Minnegasco's did not. Cost effectiveness calculations for the Minnegasco project indicated a 5.9 year pay-back period. The Commission concluded that the pay-back period for this project would therefore be within acceptable limits, but cautioned as follows:

If NSP's project is substantially more costly than this, the program's cost effectiveness may be reduced. . . . If the cost is greater than this, NSP will be required to demonstrate why the higher cost is reasonable.

Order, p. 4.

NSP has not demonstrated that the higher cost of its program is reasonable. Costs appear susceptible to further control in at least the following areas.

Coordination and Administrative Expenses -- Coordination and administrative expenses exceed 10% of the weatherization budget for the vendors alone. The Company's administrative expenses have not been submitted. The Commission concludes that further savings in this area are probably achievable, especially given the economies of scale which should result from the Company's use of only two vendors.

Labor and Materials for Weatherization -- The Commission is not prepared to require the elimination of particular components of the project, but believes it should be possible to reduce services in certain areas without significantly reducing energy savings. It would appear, for example, that limiting the installation of outlet or switch gaskets could reduce the time spent in each home without significantly affecting the household's potential energy savings.

Furnace Safety and Tune-up Services -- In its initial Order, the Commission allowed \$18 to add furnace cleaning and tune-up services to the House Doctor project. The Company proposes to allow \$110 for these services. The Commission now believes that the \$18 estimate was low, but notes that Northern Minnesota Utilities (NMU) provides substantially similar services to its customers for approximately \$50 per household. See Order Approving Conservation Program, Inter-City Gas Corporation, G-007/GR-84-669. Furthermore, NMU estimates the time required to perform tuning and safety services at 1.5 hours per household, compared to NSP's estimate of 2 to 2.5 hours. These

are significant differences.

Commission Action

The Commission cannot approve the \$520 per household cost now proposed for this project. The original approval was based on a \$425 cost, and the Commission cautioned then that any cost increase might compromise the project's cost-effectiveness to the point of disapproval. The \$520 cost does exactly that.

Furthermore, the project's proposed costs differ too much from those of similar projects to be considered reasonable. Both Minnegasco and NMU operate similar projects at lower costs. Since CIP projects are funded by ratepayers, the Commission must ensure that all program expenditures are reasonable and reflect sound business judgments.

Finally, the Commission remains committed to the statutory goal of maximizing conservation services to low income and rental households. Minn. Stat. Section 216B.241, subd. 2. The lower the expense per household, the more low income and rental households the project can serve.

The Commission believes the Company is in the best position to determine how to trim the project's expenses. The Commission will therefore provide only general guidance. The project's per household cost will be reduced to \$479, allowing service to 418 households. Also, the Company will be required to monitor the time spent on furnace tune-up and safety services and to report its findings. This should allow prompt identification and consideration of any differences between NSP and NMU in this regard.

The Department's suggestions on contract language and furnace filters will be adopted. The Company will be required to submit a status report on the project 30 days after it signs contracts with the vendors.

ORDER

1. The Company's budget for its House Doctor CIP project is revised to reflect a per household cost of \$479, in place of the \$520 proposed in its April 19 filing.
2. The Company shall monitor and maintain records on the amount of time the vendors spend performing furnace tune-up and safety services, and shall report its findings to the Commission within 30 days of the date it signs contracts with the vendors.
3. The Company shall amend its proposed House Doctor Program Agreement to change all references to the Minnesota Department of Economic Security to the Minnesota Department of Jobs and Training.
4. The Company shall delete the furnace filter device from its furnace cleaning and tuning specifications, as recommended by the Department.
5. The Company shall submit a status report on this project within 30 days of the date it signs contracts with the vendors.
6. This Order shall become effective immediately.

BY ORDER OF THE COMMISSION

Mary Ellen Hennen
Executive Secretary

(S E A L)